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SUBJECT: WEEKEND UPDATE ON TAJIK LIQUIDITY CRISIS

REF: DUSHANBE 1584

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REASON: 1.4 (c)

11. (U) This report provides an update to reftel concerning the cotton sector finance crisis in Tajikistan.

President Rahmon Reacts to Donor Demands

12. (C) According to Annette Dixon of the World Bank and Juan Miranda of the Asian Development Bank, President Rahmon "hit the roof" when the banks told him they would not help bail out the Tajik cotton sector unless Tajikistan requests, and the International Monetary Fund delivers, a new policy instrument (reftel).

13. (C) Both Miranda and Shigeo Katsu of the World Bank met with Rahmon on Saturday on the margins of the conference on Central Asian Regional Economic Cooperation. Dixon and Miranda told Ambassador Jacobson that at first Rahmon tried the blame game, accusing the international finance banks of "doing nothing for three years." Then he apparently calmed down and asked for another meeting Sunday. Miranda says that Rahmon now knows he is going to have to request the instrument -- the International Monetary Fund's Poverty Reduction and Growth Facility program -- unless he can get the money from someone else with no conditions.

14. (C) Both the World Bank and Asian Development Bank representatives asked us to support the idea of a new International Monetary Fund program with both the Tajiks and the Fund, who are going to have to move more quickly than usual if this is to work. Miranda says the International Monetary Fund is embarrassed because the Asian Development Bank uncovered the secret Tajik loan guarantees -- not the Fund itself.

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The Asian Development Bank's Plan

15. (C) Miranda and another Asian Development Bank representative told EmbOffs that the Tajik government may try to sell off some of its assets to appease its creditors, mentioning several mining concessions in particular. The Asian Development Bank's consultant company, Recovery Partners, which specializes in debt restructuring is in fact advocating this approach.

¶6. (C) According to the Asian Development Bank representative, Recovery Partners is going to attempt to fend off the international banks' demand to be paid off immediately, abating the current liquidity crisis. To meliorate the impending debt, Recovery Partners may advise the government to formalize the government's guarantees to its creditors, at least some of which were in the form of oral commitments given by the National Bank. By formalizing the government's responsibility to pay off the debt, Recovery Partners believes the creditors would be reassured and back off their demand for immediate repayment.

¶7. (C) The Asian Development Bank also clarified that its \$80 million budget support project is not technically a bailout, but will help the government get through the restructuring phase of the cotton sector reform. Since the funds would go into the general Treasury, however, the government would be able to do what it likes with the money. In order to ensure government follow up, the Asian Development Bank would make the mechanism conditional on following through on reforms. If the government does not carry out reforms the debt comes immediately due. A nine-person Asian Development Bank team of experts in Dushanbe is developing a program matrix for its \$80 million debt resolution project that links to the Cotton Sector Roadmap and government reforms.

¶8. (SBU) Comment: An Asian Development Bank representative told EmbOff November 3 that the World Bank generally supports the Asian Development Bank's \$80 million budget support project. The day before, a World Bank representative told EmbOffs they did not fully support the project. EmbOff told the Asian Development Bank representative that the Embassy will have a hard time supporting their plan until we see the details of the actual plan and get a sense of the depth of the Tajik government's commitment to following through on reform. End Comment.

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